

July 29, 2024

## Napino Auto and Electronics Limited: [ICRA]A+ (Stable)/[ICRA]A1 assigned

### Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short term – Fund Based – Cash Credit**	220.00	[ICRA]A+ (Stable)/ [ICRA]A1; assigned
Long-term – Fund Based – Term Loan	25.00	[ICRA]A+ (Stable); assigned
Long-term/Short term – Non Fund Based***	5.00	[ICRA]A+ (Stable)/ [ICRA]A1; assigned
<b>Total</b>	<b>250.00</b>	

\*Instrument details are provided in Annexure-I, \*\*sublimit include WCDL, \*\*\*capex letter of credit

### Rationale

The ratings assigned to Napino Auto and Electronics Limited (Napino) factor in its established business position and the extensive experience of its promoters in the domestic automotive components industry. Additionally, its established relationship with Hero MotoCorp Limited (HMCL), the largest two-wheeler (2Ws) original equipment manufacturers (OEMs) in India, provides further comfort. Over the years, Napino has maintained a strong market position supported by its sizeable manufacturing set-up, strong technical capabilities and product development expertise, strengthened through its status as a key supplier to HMCL. The ratings also consider Napino's diversified presence across different product categories, including e-mobility/ electric vehicle (EV) components and its healthy share of business with its principal customers. The company's product portfolio is characterised by the presence of both traditional product and e-mobility segments, mitigating the potential risk related to changes in the powertrain mix, especially in the 2W segment.

The ratings also draw strength from the company's healthy financial risk profile, as reflected in steady revenue growth and healthy cash accruals, along with its sizeable net worth and relatively lower external debt, resulting in comfortable capital structure and debt protection metrics. The company plans to incur a sizeable capital expenditure of ~ Rs. 200 crore over FY2025-FY2026 to enhance its manufacturing capacities and product base, as well as increase the share of EV components. ICRA expects this investment to be financed through internal accruals and recently raised funds (Rs. 250 crore through compulsory convertible debentures; CCDs) from the International Finance Corporation (IFC). The steady ramp-up of production from the same and scale-up in EV business owing to businesses secured from new and existing customers are expected to support Napino's growth prospects over the near to medium term.

However, the ratings are constrained by competitive pressures in the auto component industry and the vulnerability of Napino's profitability to inherent fluctuations in prices of key raw materials, primarily in the EV segment, given the company's limited ability to pass on raw material price hikes to customers. This, coupled with high R&D expenses has led to moderate operating margins (OPM) and return indicators in recent years. Nonetheless, these metrics are expected to improve over the near to medium term on the back of increasing economies of scale and commercialisation of new products. Napino is also exposed to relatively higher customer concentration risk, with its top customer accounting for a significant portion of its total revenue. However, the healthy share of business, key supplier status and HMCL's leading market position in the industry provide some comfort. ICRA notes the company's considerable efforts to diversify its business profile by gaining the share of business from other customers, which is reflected by the steady decline in revenue concentration from HMCL over the years to ~68% in FY2024 from 86% in FY2021. Additionally, the company remains vulnerable to the cyclical nature in the automotive industry, with significant concentration in the 2W industry.

ICRA also notes that Napino has filed certain merger and de-merger schemes with the National Company Law Tribunal (NCLT), for further streamlining of the group structure. This includes the proposed merger of Vrajeha Trading Private Limited (VTPL,

fully owned by Napino's promoters) with Napino. VTPL has raised debt to fund the buy of shares from an outgoing shareholder, which held a 22.57% stake in Napino. ICRA understands that following the completion of the merger process, the debt will be fully repaid from the funds raised from IFC. However, ICRA also understands that Napino's promoters will continue to provide funding support to VTPL in case of material delays in the completion of the merger process. ICRA will continue to monitor the developments in this regard.

The Stable outlook on the [ICRA] A+ rating reflects ICRA's expectation that Napino will continue to benefit from its established business position, long-standing relation with the market leader, HMCL, and the company's broad-based growth across its business segments.

## Key rating drivers and their description

### Credit strengths

**Established track record and extensive experience of promoters in the automotive components industry** – Incorporated in 1991, Napino has established itself as a prominent manufacturer of electronic and electrical automotive components, especially for the 2W industry. This has been supported by its established relationships with HMCL and other key OEMs, diverse product profile and sizeable manufacturing set-up. The company is promoted by Mr. Vipin Raheja (Founder and Managing Director), having extensive experience of over three decades in the industry. He is further assisted by his son, Mr. Vaibhav Raheja, Joint Managing Director of the company. Napino also benefits from the technological collaborations from global auto majors Vitesco Technologies Group AG (Vitesco) and Continental Automotive Holding Netherlands B.V (Continental Automotive). Napino has expanded its product (electronics, wiring harness and switches among others) profile over the years, supported by strong technical capabilities, various technical collaborations and continued investment in designing infrastructure and R&D over the years.

**Established relations with reputed clientele** – Over the years, Napino has developed a wide customer base of leading domestic and global OEMs, including HMCL, Honda Motorcycle and Scooters India Private Limited, Royal Enfield, Bajaj Auto Limited, Ather Energy, Ola Electric, Simple Energy, TVS Motors and Hero Electric in the domestic 2W industries. The company enjoys a healthy share of business with its principal customer, aided by the technological support from Vitesco, in-house developed capabilities and a wide range of product profile. Given the product development and order bookings with new and existing customers, Napino's EV share is expected to increase steadily to 25-30% by FY2026 from the existing 10-15%.

**Healthy financial risk profile** – Napino reported steady revenue growth in FY2023 and FY2024, higher than the domestic 2W industry's growth. This growth has been aided by the increased volumes in the 2W industry after the pandemic and the expansion of its EV vertical amid the increasing product and customer base. On a consolidated basis, Napino's operating income (OI) is estimated at ~Rs. 1,547 crore in FY2024 compared to ~Rs. 1,312 and ~Rs. 1,096 crore in FY2023 and FY2022, respectively. The growth momentum is expected to sustain in the near to medium term, aided by healthy revenue from the EV segment. Napino's financial profile continues to be healthy, led by low reliance on external debt for the working capital requirement or term debt, given the company's healthy cash generation. Napino raised funds of Rs. 250 crore (CCD with 0.001% rate of interest) from IFC in June 2024 to incur a sizeable capital expenditure in coming years and to retire the term debt availed in a Group company (fully owned by the promoters) to acquire the stake from the outgoing shareholders. The IFC funds helped the company maintain a lower reliance on external debt for its capex and working capital requirements.

### Credit challenges

**Exposure to raw material price volatility and competitive pressures; moderate OPM and returns indicators** – Napino's OPM is susceptible to fluctuations in key raw material prices. However, the same is passed on with a minor lag, largely insulating its profitability. Moreover, due to the competitive nature of the business, the company encounters pressures from other global and domestic suppliers, especially in the EV segment, in terms of pricing flexibility. However, it benefits to an extent from its established operational track record and long-standing relationships with its key customers. Napino has been reporting moderate OPM due to substantial expenditure on R&D, which is expected to generate higher earnings in the upcoming years.

This, coupled with investments made in joint ventures (JVs) and other strategic initiatives, exerted pressure on the company's return indicators.

**Relatively higher customer concentration risk, however, dependence on HMCL declined steadily in recent past** – Napino has a relatively higher customer concentration risk, with its top customer, HMCL, accounting for a major part of its revenue. The company's business performance is thus vulnerable to the performance and market share of its key client. However, ICRA notes that the dependence on HMCL has declined steadily to ~68% in FY2024 compared to 86% in FY2021, primarily due to the expansion of Napino's customer base. Moreover, Napino's healthy share of business and key supplier status with HMCL, along with HMCL's leading market position in the domestic 2W industry, provide some comfort. While HMCL is expected to significantly drive the company's revenue, the addition of new products and expansion of its EV vertical through planned product launches are expected to widen the customer base and support the company's revenue growth over the medium term.

**Cyclicality inherent in the automotive sector** – Napino derives most of its revenue from the automotive sector, mainly from the 2W segment (~90% of revenues in FY2024), thereby exposing it to the inherent cyclicality and/or demand slowdowns of the auto industry. However, given that the company enjoys established relations with HMCL and has demonstrated the ability to sustain its steady revenue growth in recent years, with its product profile also catering to alternative vehicle components (EV), Napino is likely to report healthy revenue growth over the medium term.

### Liquidity position: Strong

Napino's liquidity position is strong, supported by steady internal cash accrual generation and undrawn working capital bank lines of Rs. 126 crore (~Rs. 95 crore on a standalone basis) as of June 2024, on a consolidated basis. As of March 2024, the company also has free cash and bank balances of ~Rs. 210 crore on a consolidated basis. Napino has a planned capex of Rs. 250-300 crore in FY2025-FY2027, including investment in subsidiaries and JVs, which is expected to be funded through internal accruals, available free cash/liquid investments and funds raised from IFC.

### Rating sensitivities

**Positive factors** – ICRA could upgrade Napino's ratings if it reports strong revenue growth and accrual generation, leading to improvement in its return indicators while maintaining strong debt protection metrics and liquidity profile on a sustained basis. Besides, increased customer and product diversification, further strengthening the business profile would also be key for ratings upgrade.

**Negative factors** – Pressure on Napino's ratings could arise in case of a considerable decline in revenue and accrual generation, significant debt-funded capex and/or deterioration in working capital cycle, resulting in the weakening of its credit metrics and liquidity position. Specific credit metrics that could result in a ratings downgrade include TOL /TNW of more than 1.4 times on a sustained basis.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Auto Components</a>
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financial statements of Napino, including its subsidiaries, associates and joint ventures, as per details given in Annexure II

## About the company

Incorporated in 1991, Napino manufactures electrical and electronic components for the automotive industry, including printed circuit boards (PCB), electronic control units (ECU), regulators /rectifiers, wiring harnesses, switches, assembly winkers, capacitor discharge ignitors, mechatronics, e-mobility products, engine management systems and resistor assemblies. Napino is promoted by Mr. Vipin Raheja and family. The Napino Group is a key vendor for HMCL and supplies electronic components for 2Ws, including electric vehicles (2Ws-EV). Napino has a 70% subsidiary, NCS, which manufactures electronic fuel injectors (EFI) with technology support from Vitesco for HMCL. NDS, a 100% subsidiary of Napino, manufactures and providing services related to internet of things (IoT). Napino has another 100% subsidiary, NDM, which has no operations as on date. Napino Continental Vehicle Electronics Private Limited (NCVE), a 50% JV with Continental Automotive, manufactures electronic instrument clusters (EIC) for commercial vehicles and 2Ws. Napino has filed merger and de-merger schemes with the NCLT to re-align its core and non-core businesses into different verticals, which is likely to be completed in the current fiscal year.

## Key financial indicators (audited/estimated)

Napino Consolidated	FY2022	FY2023	FY2024*
Operating income	1,096.1	1,312.9	1,547.0
PAT	16.4	35.2	61.8
OPBDIT/OI	7.7%	7.1%	7.9%
PAT/OI	1.5%	2.7%	4.0%
Total outside liabilities/Tangible net worth (times)	0.5	0.6	0.6
Total debt/OPBDIT (times)	1.4	1.7	1.4
Interest coverage (times)	12.9	9.0	7.5

Source: Company, \*Estimates basis consolidation done by ICRA, PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Note: All financial ratios as per ICRA's calculation

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years		
		Amount Rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
			July 29, 2024	-	-	-
1 Cash Credit*	Long Term/ Short Term	220.00	[ICRA]A+ (Stable)/ [ICRA]A1	-	-	-
2 Term Loan	Long Term	25.00	[ICRA]A+ (Stable)	-	-	-
3 Non-fund based**	Long Term/ Short Term	5.00	[ICRA]A+ (Stable)/ [ICRA]A1	-	-	-

Source: Company, \*sublimit include WCDL, \*\*capex letter of credit

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/Short term – Fund Based – Cash Credit	Simple

Long-term – Fund Based – Term Loan	Simple
Long-term/Short term – Non Fund Based	Very simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

#### Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit*	NA	NA	NA	220.00	[ICRA]A+ (Stable)/ [ICRA]A1
NA	Term Loan <sup>#</sup>	NA	NA	NA	25.00	[ICRA]A+ (Stable)
NA	Non-fund based**	NA	NA	NA	5.00	[ICRA]A+ (Stable)/ [ICRA]A1

Source: Company, \*sublimit include WCDL, \*\*capex letter of credit, # not availed

[Please click here to view details of lender-wise facilities rated by ICRA](#)

#### Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership*	Consolidation Approach
Napino Auto and Electronics Limited	NA**	Full consolidation
<b>Subsidiaries</b>		
Napino Control Systems Private Limited	70.00%	Full consolidation
Napino Digital Solutions Private Limited	100.00%	Full consolidation
Napino Domino Mechatronics Private Limited	100.00%	Full consolidation
<b>Joint Ventures</b>		
Napino Continental Vehicle Electronics Private Limited	50.00%	Equity method
<b>Associates</b>		
VVDN Technologies Private Limited	11.00%	Equity method

Source: Company, \*as of March 31, 2024, \*\*parent company

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### Branches



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